

FX Positioning: Halfway back to normality

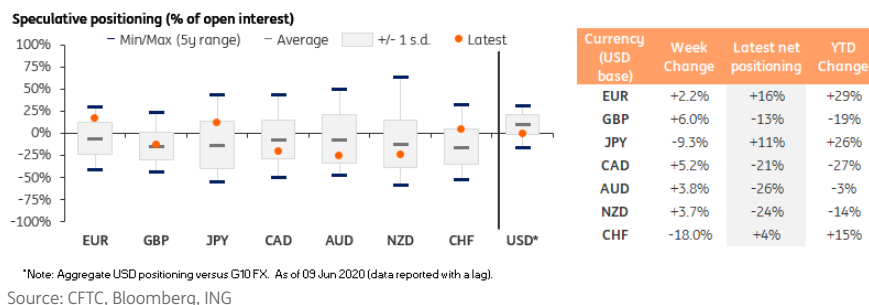
Sharp drops in CHF and JPY positioning suggest CFTC positioning data are starting to realign with market moves, but evidence of a short-squeeze in commodity currencies is still insufficient. Elsewhere, bearish bets on GBP were cut on glimmers of hope for a UK-EU deal and recovery in risk sentiment



Safe-havens correction is first step for realignment

In our [latest commentary on FX positioning data](#), we emphasised how CFTC Commitment of Traders data appeared to have lost a portion of their explanatory power as it markedly detached from real FX market dynamics. The latest update – as of 9 June – provides a picture of FX positioning that is still leaning towards an excessively defensive stance, but a fierce long-trimming in the safe havens CHF and JPY can be seen as a first step to a realignment with the market.

CHF net positioning dropped to +4% of open interest from 22% a week before and JPY fell to 9% from 21%. The move coincides with the US stock market reaching new highs as global risk sentiment peaked and does not account for the downside correction later last week. Despite the drop in net positioning, both JPY and CHF remain close to the upper bound of their 5y, 1 standard deviation bands, suggesting additional downside room.



Waiting for the big short-squeeze in pro-cyclicals

EUR net positioning, instead, did not follow suit and rose again, reaching +16% of open interest, the highest level in two years, possibly supported by upbeat expectations on a coordinated fiscal response in the eurozone.

CAD, AUD and NZD also finally showed the marks of improved market sentiment, with some net shorts being cut in all three currencies. At the same time, they remained in highly oversold territory, which suggests CFTC data are still failing to provide an accurate picture of market positioning on the commodity currency space. At the same time, it must be noted that the report does not cover the 10 June FOMC meeting, after which we may have seen some additional clearing of shorts.

The next CFTC report, due Friday, will be a key one to conclude whether the realignment of positioning data with the market moves has progressed: in this sense, it will be important to analyse the dynamics in risk-sensitive currencies amid the roller-coaster in risk sentiment of the past few days.

Brexit hopes up, GBP shorts down

After dropping for 13 consecutive weeks, sterling’s net positioning is finally finding some support. GBP net positioning is now at -13% of open interest (broadly at its 5y average), as net short-trimming accounted for 6% of open interest in the week of 3-9 June.

This is a mix of two factors. First, the swings in investors’ sentiment when it comes to the future of the UK outside the EU. Markets have recently held a more upbeat view on a UK-EU trade deal after recent rounds of negotiations have encouraged the view that the two parts are softening their stances on some key points. Second, GBP has been benefiting from the recovery in the global risk appetite to which it remains sensitive. For example, based on our short-term financial fair value model, the rebound in risk sentiment contributed to the 1.5% increase in GBP short-term fair value vs. EUR over the course of the past four weeks

However, there is still a very high uncertainty about the outcome of the trade talks ([here’s our view on possible scenarios](#)) and the impact on the UK economy. This makes us very cautious on GBP.

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